

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name City of Kingsford	County Dickinson
Audit Date 6/30/05	Opinion Date 8/29/05	Date Accountant Report Submitted to State: 10/4/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

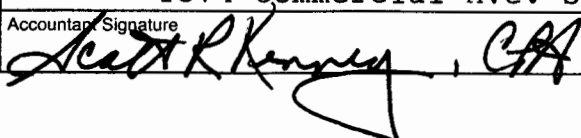
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>		
Reports on individual federal financial assistance programs (program audits).			<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).			<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name) Scott R. Kenney, CPA			
Street Address 1374 Commercial Ave. Ste. 1		City Crystal Falls	State MI
Accountant Signature 		ZIP 49920	Date 10/4/05

CITY OF KINGSFORD
AUDITED FINANCIAL STATEMENTS
KINGSFORD, MICHIGAN

Fiscal Year Ended June 30, 2005

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SCOTT R. KENNEY

Certified Public Accountant

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INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and City Council
City of Kingsford
Kingsford, Michigan 49802

I have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Kingsford, Michigan, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's elected officials and management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Kingsford, Michigan, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note A, the City has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments, as of June 30, 2004.

The Management's Discussion and Analysis and Budgetary Comparison Schedules as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

Member
American Institute of Certified Public Accountants
Michigan Association of Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

My audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of Kingsford, Michigan's basic financial statements. The introductory section, statistical tables and additional information section are presented for additional analysis and are not a required part of the basic financial statements. The additional information section has been subjected to auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, I express no opinion on them.


Certified Public Accountant

August 29, 2005

CITY OF KINGSFORD
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2005

Using this Annual Report

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements.

The City as a Whole

The City's combined net assets increased 5.8% from a year ago - increasing from \$12.724 million to \$13.459 million. As we look at the governmental activities separately from the business-type activities, we can see that the governmental activities experienced an increase of approximately \$494,000 during the year (5.4% increase). This is attributed to receipt of insurance proceeds from the fire at City Hall which is somewhat offset by benefit costs rising faster than inflation. The City Hall renovation is currently underway with Phase I work complete and Phase II in its early stages. The business-type activities experienced a \$240,000 increase in net assets, primarily as a result of maintaining costs and having an adequate charge structure. In a condensed format, the table below shows a comparison of the net assets (in thousands of dollars) as of the current date to the prior year:

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Current Assets	\$ 3,972	\$ 3,574	\$ 1,336	\$ 1,156	\$ 5,308	\$ 5,117
Noncurrent Assets	<u>8,936</u>	<u>8,557</u>	<u>3,067</u>	<u>3,001</u>	<u>12,003</u>	<u>12,062</u>
Total Assets	\$ 12,908	\$ 12,131	\$ 4,403	\$ 4,157	\$ 17,311	\$ 17,179
Long-Term Debt Outstanding	\$ 2,788	\$ 2,656	\$ 506	\$ 521	\$ 3,294	\$ 3,177
Other Liabilities	<u>438</u>	<u>287</u>	<u>120</u>	<u>100</u>	<u>558</u>	<u>387</u>
Total Liabilities	<u>\$ 3,226</u>	<u>\$ 2,943</u>	<u>\$ 626</u>	<u>\$ 621</u>	<u>\$ 3,852</u>	<u>\$ 3,564</u>
Net Assets						
Invested in Capital Assets—Net of Debt	\$ 6,763	\$ 6,342	\$ 1,993	\$ 2,178	\$ 8,756	\$ 8,520
Restricted	5	7	913	544	918	551
Unrestricted	<u>2,914</u>	<u>2,839</u>	<u>871</u>	<u>814</u>	<u>3,785</u>	<u>3,653</u>
Total Net Assets	\$ 9,682	\$ 9,188	\$ 3,777	\$ 3,536	\$ 13,459	\$ 12,724

CITY OF KINGSFORD
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2005

Unrestricted net assets—the part of net assets that can be used to finance day to day operations, increased by \$75,000 for the governmental activities. This represents an increase of approximately 2.6%. The current level of unrestricted net assets for our governmental activities stands at \$2.914 million, or about 69.51% of expenditures.

The following table shows the changes of the net assets (in thousands of dollars) as of the current date to the prior year:

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Program Revenues						
Charges for Services	\$ 93	\$ 95	\$ 778	\$ 701	\$ 871	\$ 796
Operating Grants and Contributions	524	528	0	0	524	528
Capital Grants and Contributions	0	0	0	0	0	0
General Revenues						
Property Taxes	\$ 2,030	\$ 2,042	\$ 0	\$ 0	\$ 2,030	\$ 2,042
State-Shared Revenues	639	671	0	0	639	671
Unrestricted Investment Earnings	500	451	33	53	533	504
Fines and Forfeitures	25	21	0	0	25	21
Reimbursements and Other	30	132	0	0	30	132
Sale of Land	46	49	0	0	46	49
Insurance Proceeds	727	0	0	0	727	0
Transfers	<u>(147)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(147)</u>	<u>0</u>
Total Revenues	\$ 4,467	\$ 3,989	\$ 811	\$ 754	\$ 5,278	\$ 4,743
Program Expenses						
General Government	\$ 402	\$ 582	\$ 0	\$ 0	\$ 402	\$ 582
Public Safety	1,344	1,315	0	0	1,344	1,315
Public Works	1,662	1,585	0	0	1,662	1,585
Insurance and Benefits	322	249	0	0	322	249
Recreation & Culture	101	100	0	0	101	100
Other	0	288	0	0	0	288
Interest on Long-Term Debt	142	58	0	0	142	58
Water & Sewer	<u>0</u>	<u>0</u>	<u>570</u>	<u>528</u>	<u>570</u>	<u>528</u>
Total Expenses	\$ 3,973	\$ 4,177	\$ 570	\$ 528	\$ 4,543	\$ 4,705
Change in Net Assets	\$ 494	\$ (188)	\$ 241	\$ 226	\$ 735	\$ 38

CITY OF KINGSFORD
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2005

The City's net assets continue to remain healthy. The decrease in expenses in the governmental funds and the insurance reimbursement received for the City Hall project contributed to this growth.

Governmental Activities

The City's total governmental revenues increased by approximately \$478,000 due to the insurance reimbursement received for fire losses. This was somewhat offset by the adverse settlement of property tax appeal cases as reflected in the decrease in property tax revenues.

Cash expenditures decreased by nearly \$204,000 during the year. This was primarily due to the street projects undertaken and other capital outlay incurred in the 2003-2004 year.

Business-Type Activities

The City's business-type activities consist of the Water and Sewer Funds. The City provides water to residents, which comes from the City's own water system. The City also provides sewage treatment to residents through the Iron Mountain-Kingsford Sewage Treatment Authority. The Water Fund revenues increased slightly. The expenses in the Water Fund increased also due to increased contracted services and very low repair costs in the 2003-2004 year. This resulted in a small increase in the net operating loss of approximately \$15,000. The Sewer Fund revenues increased due to a charge increase implemented during the 2003-2004 fiscal year that has been designated primarily for future system upgrades and expansion. Expenses increased in the Sewer Fund due primarily to the increase in professional engineering services. The net results increased net operating income of more than \$49,000.

The City's Funds

Analysis of the City's major funds begins on page 12, following the entity-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the City as a whole. The City Council creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as a special property tax millage. The City's major funds for 2004-2005 include the General Fund, Major Street Fund, Local Street Fund, Small Cities Grant Loan Repayment Fund, Equipment and Capital Fund, Water Utility Fund and Sewer Utility Fund.

The General Fund pays for most of the City's governmental services. The most significant are general maintenance of city property and buildings, maintaining the City's equipment, police and fire services and general administration. These services are primarily funded from property taxes assessed to the residents of the City and revenues shared with the State of Michigan.

CITY OF KINGSFORD
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2005

General Fund Budgetary Highlights

Over the course of the year, the City Council amended the budget to take into account events during the year. The most significant revenue changes were in Insurance Proceeds Revenues which was increased by \$396,000 resulting from the City Hall fire and Interest which was increased by \$34,000 because of an upturn in investment earnings. Various expenditure categories were adjusted by amounts aggregating a like amount resulting in no change to the original net budget.

Capital Asset and Debt Administration

At the end of 2004, the City had more than \$13,344,000 invested in a broad range of capital assets, including snow removal equipment, police and fire equipment, land and buildings and water and sewer lines. In addition, the City has invested significantly in roads and buildings within the City. The cost value of the roads at the end of the 2004 fiscal year exceeded \$6,338,000. These roads are maintained by the City with the costs recorded in the major and local street funds.

Economic Factors and Next Year's Budgets and Rates

The City's budget for 2005-2006 calls for an increase on property tax rates to fund the Police and Firemen's Pension, a decrease in the debt millage to repay the bonds on the Public Works Facility and no change in the general operating rate. No change in the operating rate can be accomplished because of the controls that are being placed on governmental fund expenditures. Because of the impact of Proposal A, however, the City needs to continue to watch its budget very closely. The state-wide tax reform act limits growth in taxable value on any individual property to the lesser of inflation or 5%. Because some properties increase in value by less than the inflationary rate, the mathematical result of this is that the total taxable value for the City will grow at a rate less than inflation, before considering new property additions. The Police and Fireman's Pension assessment is calculated by actuarially determined expenses and must be funded per Michigan statute.

As discussed above, the City will be outlaying funds to repair and renovate the City hall during the forthcoming fiscal year. Phase I consisting of clean up, some demolition and primarily exterior repairs has been completed with most of the costs being covered by insurance proceeds. Phase II which covers expansion and interior renovation is partially covered by insurance proceeds is expected to cost the City approximately \$600,000 from its reserves. This portion of the project is currently underway.

Contacting the City's Management

This financial report is intended to provide the citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the manager's office.

CITY OF KINGSFORD
GOVERNMENT WIDE STATEMENT OF NET ASSETS
June 30, 2005

	PRIMARY GOVERNMENT			COMPONENT UNIT
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	
ASSETS				
CURRENT ASSETS				
Cash and equivalents	\$ 3,138,544	\$ 1,209,922	\$ 4,348,466	\$ 66,364
Receivables - net	617,997	126,109	744,106	3,015
Investments	0	0	0	294,281
Prepaid expenses	0	0	0	12,005
Internal balances	215,770	0	215,770	0
TOTAL CURRENT ASSETS	\$ 3,972,311	\$ 1,336,031	\$ 5,308,342	\$ 375,665
RESTRICTED ASSETS - Cash and equivalents	\$ 4,622	\$ 558,534	\$ 563,156	\$ 0
NON-CURRENT ASSETS				
Property and equipment, net of depreciation	\$ 8,930,719	\$ 2,508,918	\$ 11,439,637	\$ 1,012,880
TOTAL ASSETS	\$ 12,907,652	\$ 4,403,483	\$ 17,311,135	\$ 1,388,545
LIABILITIES				
CURRENT LIABILITIES				
Accounts payable	\$ 106,110	\$ 16,351	\$ 122,461	\$ 11,312
Accrued and other liabilities	131,227	49,725	180,952	38,660
Interprogram payables	160,639	44,309	204,948	0
Current part of non-current liabilities	40,000	10,000	50,000	0
TOTAL CURRENT LIABILITIES	\$ 437,976	\$ 120,385	\$ 558,361	\$ 49,972
LIABILITIES PAYABLE FROM RESTRICTED ASSETS	\$ 0	\$ 44,280	\$ 44,280	\$ 0
NON-CURRENT LIABILITIES				
Compensated absences	\$ 131,027	\$ 0	\$ 131,027	\$ 21,926
Bonds payable	2,167,600	0	2,167,600	0
Revenue bonds payable	0	461,720	461,720	0
Unfunded accrued actuarial pension liability	488,870	0	488,870	0
TOTAL NON-CURRENT LIABILITIES	\$ 2,787,497	\$ 461,720	\$ 3,249,217	\$ 21,926
TOTAL LIABILITIES	\$ 3,225,473	\$ 626,385	\$ 3,851,858	\$ 71,898
NET ASSETS				
Invested in capital assets, net of related debt	\$ 6,763,119	\$ 1,992,918	\$ 8,756,037	\$ 1,012,880
Restricted for				
Forfeitures	4,622	0	4,622	0
Debt service	0	44,280	44,280	0
Repair and reconstruction	0	868,767	868,767	0
System improvements	0	570,000	570,000	0
Unrestricted	2,914,438	301,133	3,215,571	303,767
TOTAL NET ASSETS	\$ 9,682,179	\$ 3,777,098	\$ 13,459,277	\$ 1,316,647

The Notes to Financial Statements are an integral part of this statement.

CITY OF KINGSFORD
GOVERNMENT WIDE STATEMENT OF ACTIVITIES
Year ended June 30, 2005

FUNCTIONS/PROGRAMS	PROGRAM REVENUES				NET REVENUE (EXPENSE) AND CHANGES IN NET ASSETS		
	CHARGES FOR SERVICES		OPERATING GRANTS AND CONTRIBUTIONS		CAPITAL GRANTS AND CONTRIBUTIONS		COMPONENT UNIT
	EXPENSES						
Governmental Activities							
General government	\$ 402,061	\$ 0	\$ 0	\$ 0	\$ (402,061)	\$ (402,061)	
Public safety	1,344,135	0	0	0	(1,344,135)	(1,344,135)	
Public works	1,662,016	92,597	524,001	0	(1,045,418)	(1,045,418)	
Insurance and benefits	322,140	0	0	0	(322,140)	(322,140)	
Recreation and culture	100,829	0	0	0	(100,829)	(100,829)	
Other	401	0	0	0	(401)	(401)	
Interest on long-term debt	141,714	0	0	0	(141,714)	(141,714)	
TOTAL GOVERNMENTAL ACTIVITIES	\$ 3,973,297	\$ 92,597	\$ 524,001	\$ 0	\$ (3,356,699)	\$ (3,356,699)	
Business-Type Activities							
Water	\$ 511,395	\$ 422,180	\$ 0	\$ 0	\$ (89,215)	\$ (89,215)	
Sewer	58,634	355,842	0	0	297,208	297,208	
TOTAL BUSINESS-TYPE ACTIVITIES	\$ 570,029	\$ 778,022	\$ 0	\$ 0	\$ 207,993	\$ 207,993	
Component Unit - Kingsford Housing Commission	\$ 485,649	\$ 160,731	\$ 179,340	\$ 0	\$ (145,578)	\$ (145,578)	
GENERAL REVENUES							
Property taxes					\$ 2,029,844	\$ 0	\$ 0
State shared revenues and grants					639,326	0	639,326
Unrestricted investments earnings					500,380	32,688	533,068
Fines and forfeitures					25,317	0	25,317
Reimbursements					21,055	0	21,055
Other					8,962	0	8,962
SPECIAL ITEMS							
Gain (loss) on sale of land					45,550	0	45,550
Insured loss proceeds					726,841	0	726,841
TRANSFERS					(146,828)	0	(146,828)
TOTAL GENERAL REVENUES AND SPECIAL ITEMS	\$ 3,850,447	\$ 3,850,447	\$ 32,688	\$ 3,883,135	\$ 12,124		
CHANGE IN NET ASSETS							
Net assets - beginning					\$ 493,749	\$ 240,681	\$ 734,430
					9,188,430	3,536,417	12,724,847
NET ASSETS - ENDING	\$ 9,682,179	\$ 9,682,179	\$ 3,777,098	\$ 13,459,277	\$ 1,316,647		

The Notes to Financial Statements are an integral part of this statement.

CITY OF KINGSFORD
GOVERNMENTAL FUNDS BALANCE SHEET
COMBINED BALANCE SHEET
June 30, 2005

	ASSETS					LIABILITIES			FUND BALANCES			
	GENERAL FUND	MAJOR STREET FUND	LOCAL STREET FUND	SMALL CITIES GRANT LOAN REPAYMENT FUND	EQUIPMENT AND CAPITAL FUND	NON-MAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS					
Cash and equivalents	\$ 2,237,499	\$ 422,917	\$ 2,411	\$ 388,321	\$ 39,727	\$ 47,669	\$ 3,138,544					
Taxes receivable - net	0	0	0	0	0	0	0					
Accounts/notes receivable	13,092	0	0	423,641	0	0	436,733					
Due from other funds	162,010	0	53,760	0	0	0	215,770					
Due from other governmental units	85,917	74,386	20,961	0	0	0	181,264					
Restricted assets	4,622	0	0	0	0	0	4,622					
TOTAL ASSETS	\$ 2,503,140	\$ 497,303	\$ 77,132	\$ 811,962	\$ 39,727	\$ 47,669	\$ 3,976,933					
Accounts payable	\$ 98,229	\$ 405	\$ 623	\$ 0	\$ 6,853	\$ 0	\$ 106,110					
Accrued payroll expense	89,711	3,043	3,519	0	0	0	96,273					
Due to other funds	0	84,114	68,203	1,842	0	6,480	160,639					
Deferred revenue	0	0	0	423,641	0	0	423,641					
TOTAL LIABILITIES	\$ 187,940	\$ 87,562	\$ 72,345	\$ 425,483	\$ 6,853	\$ 6,480	\$ 786,663					
Reserved for												
Forfeitures	\$ 4,622	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 4,622					
Unreserved	2,310,578	409,741	4,787	386,479	32,874	41,189	3,185,648					
TOTAL FUND EQUITY	\$ 2,315,200	\$ 409,741	\$ 4,787	\$ 386,479	\$ 32,874	\$ 41,189	\$ 3,190,270					
TOTAL LIABILITIES AND FUND EQUITY	\$ 2,503,140	\$ 497,303	\$ 77,132	\$ 811,962	\$ 39,727	\$ 47,669	\$ 3,976,933					

The Notes to Financial Statements are an integral part of this statement.

CITY OF KINGSFORD
RECONCILIATION OF BALANCE SHEET OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS
June 30, 2005

Total fund balance - total governmental funds	\$ 3,190,270
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds net of related depreciation	8,930,719
Long term liabilities:	
Bonds not due and payable within the current period and not reported in the funds	(2,207,600)
Accrued interest on bonds not reported	(34,954)
Accumulated employee vacation and personal pay not used in current period	(131,027)
Unfunded accrued actuarial pension liability not payable in the current period	(488,870)
Eliminate deferred income recognition of notes receivable	<u>423,641</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES \$	<u><u>9,682,179</u></u>

CITY OF KINGSFORD
GOVERNMENTAL FUNDS STATEMENT OF REVENUE,
EXPENDITURES, AND CHANGES IN FUND BALANCE
Year ended June 30, 2005

	SMALL CITIES					EQUIPMENT AND CAPITAL FUND		NON-MAJOR GOVERNMENTAL FUND		TOTAL GOVERNMENTAL FUNDS		
	GENERAL FUND		MAJOR STREET FUND		LOCAL STREET FUND		SMALL CITIES GRANT LOAN REPAYMENT FUND					
REVENUES												
Property taxes	\$	1,884,802	\$	0	\$	0	\$	0	\$	0	\$	2,029,844
Federal grants		0		0		0		0		0		0
State shared revenues and grants		639,326		381,590		142,411		0		0		1,163,327
Licenses and permits		106		0		0		0		0		106
Fines and forfeitures		25,317		0		0		0		0		25,317
Charges for services		92,597		0		0		0		0		92,597
Interest and rentals		461,673		6,595		233		29,093		1,039		500,380
Sale of property and supplies		43,451		0		0		0		0		50,550
Refunds and reimbursements		21,055		0		0		0		0		21,055
Insurance proceeds		726,841		0		0		0		0		726,841
Other		6,818		0		196		100,985		0		107,999
TOTAL REVENUES	\$	3,901,986	\$	388,185	\$	142,840	\$	130,078	\$	1,039	\$	4,718,016
EXPENDITURES												
Current												
General government	\$	423,014	\$	0	\$	0	\$	1,460	\$	0	\$	437,520
Public safety		1,316,255		0		0		0		0		1,316,255
Public works		943,898		181,189		151,433		0		0		1,276,520
Recreation		100,829		0		0		0		0		100,829
Insurance and benefits		113,938		0		0		0		0		113,938
Other		401		0		0		0		0		401
Capital outlay		12,575		68,989		104,940		0		613,662		800,183
Debt service		0		0		0		0		0		146,760
TOTAL EXPENDITURES	\$	2,910,910	\$	250,178	\$	256,373	\$	1,460	\$	613,662	\$	4,192,406
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$	991,076	\$	138,007	\$	(113,533)	\$	128,618	\$	(612,623)	\$	525,610
OTHER FINANCING SOURCES (USES)												
Transfers in	\$	0	\$	0	\$	106,230	\$	0	\$	588,755	\$	694,985
Transfers (out)		(788,053)		(53,760)		0		0		0		(841,813)
TOTAL OTHER FINANCING SOURCES (USES)	\$	(788,053)	\$	(53,760)	\$	106,230	\$	0	\$	588,755	\$	(146,828)
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	\$	203,023	\$	84,247	\$	(7,303)	\$	128,618	\$	(23,868)	\$	378,782
Fund balance - beginning		2,112,177		325,494		12,090		257,861		56,742		2,811,488
FUND BALANCE - JUNE 30	\$	2,315,200	\$	409,741	\$	4,787	\$	386,479	\$	32,874	\$	3,190,270

The Notes to Financial Statements are an integral part of this statement.

CITY OF KINGSFORD
RECONCILIATION OF STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE
TO THE STATEMENT OF ACTIVITIES
Year ended June 30, 2005

Net change in fund balance - total governmental funds	\$ 378,782
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report capital outlays as expenditures; in the Statement of Activities these costs are allocated over their estimated useful life and reported as depreciation.	385,669
Land sales are revenue in the governmental funds but sale amount is reduced by property basis in the Statement of Activities	(5,000)
Eliminate effect of reduction of deferred revenue in governmental fund not recognized in the Statement of Activities	(99,143)
Repayments of loan principal is an expenditure in the governmental funds but not in the Statement of Activities (where it reduces long-term debt).	40,000
Increase in accrued interest not recorded as expenditure in governmental funds but recorded in Statement of Activities	(34,954)
Decreases in accumulated employee vacation and personal pay are recorded when earned in the Statement of Activities	36,597
Increase in unfunded accrued actuarial pension liability not requiring the use of current financial resources	<u>(208,202)</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$	<u><u>493,749</u></u>

CITY OF KINGSFORD
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2005

	<u>WATER UTILITY</u>	<u>SEWER UTILITY</u>	<u>TOTAL</u>
ASSETS			
Current Assets:			
Cash and equivalents	\$ 1,124,111	\$ 85,811	\$ 1,209,922
Accounts receivable	48,448	77,661	126,109
Due from other funds	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL CURRENT ASSETS	\$ 1,172,559	\$ 163,472	\$ 1,336,031
Restricted Assets	\$ 100,111	\$ 458,423	\$ 558,534
Property, plant and equipment:			
System assets	\$ 4,673,774	\$ 532,207	\$ 5,205,981
Less accumulated depreciation	<u>(2,652,702)</u>	<u>(44,361)</u>	<u>(2,697,063)</u>
TOTAL PROPERTY, PLANT AND EQUIPMENT	\$ <u>2,021,072</u>	\$ <u>487,846</u>	\$ <u>2,508,918</u>
TOTAL ASSETS	\$ 3,293,742	\$ 1,109,741	\$ 4,403,483
LIABILITIES			
Current Liabilities:			
Accounts payable	\$ 12,705	\$ 3,646	\$ 16,351
Accrued payroll expenses	16,000	914	16,914
Accrued interest	5,805	0	5,805
Due to other funds	26,490	17,819	44,309
Due to other governmental units	0	27,006	27,006
Current portion of long term debt	<u>10,000</u>	<u>0</u>	<u>10,000</u>
TOTAL CURRENT LIABILITIES	\$ 71,000	\$ 49,385	\$ 120,385
Long Term Debt - Bonds payable	\$ <u>506,000</u>	\$ <u>0</u>	\$ <u>506,000</u>
TOTAL LIABILITIES	\$ 577,000	\$ 49,385	\$ 626,385
NET ASSETS			
Invested in capital assets - net of related debt	\$ 1,505,072	\$ 487,846	\$ 1,992,918
Restricted for debt service	44,280	0	44,280
Restricted for repairs and reconstruction	55,831	812,936	868,767
Restricted for system improvements	570,000	0	570,000
Unrestricted	<u>541,559</u>	<u>(240,426)</u>	<u>301,133</u>
TOTAL NET ASSETS	\$ <u>2,716,742</u>	\$ <u>1,060,356</u>	\$ <u>3,777,098</u>

The Notes to Financial Statements are an integral part of this statement.

CITY OF KINGSFORD
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
Year ended June 30, 2005

	<u>WATER UTILITY</u>	<u>SEWER UTILITY</u>	<u>TOTAL</u>
OPERATING REVENUES			
Charges for services:			
Metered sales and service charges	\$ 416,368	\$ 350,278	\$ 766,646
Taps, thaws and shutoffs	2,480	40	2,520
Late payment penalties	<u>3,332</u>	<u>5,524</u>	<u>8,856</u>
TOTAL OPERATING REVENUES	\$ 422,180	\$ 355,842	\$ 778,022
OPERATING EXPENSES			
Personal services	\$ 180,503	\$ 26,444	\$ 206,947
Contractual services	24,577	6,007	30,584
Utilities	44,423	1,085	45,508
Equipment rental	31,341	8,965	40,306
Supplies	17,161	3,004	20,165
Other services and charges	12,667	487	13,154
Depreciation	<u>177,447</u>	<u>12,642</u>	<u>190,089</u>
TOTAL OPERATING EXPENSES	\$ 488,119	\$ 58,634	\$ 546,753
NET OPERATING INCOME (LOSS)	\$ (65,939)	\$ 297,208	\$ 231,269
NON-OPERATING GAINS/LOSSES			
Interest earned	\$ 25,796	\$ 6,892	\$ 32,688
Interest expense	<u>(23,276)</u>	<u>0</u>	<u>(23,276)</u>
CHANGE IN NET ASSETS	\$ (63,419)	\$ 304,100	\$ 240,681
Net assets - beginning	<u>2,780,161</u>	<u>756,256</u>	<u>3,536,417</u>
NET ASSETS - ENDING	\$ <u>2,716,742</u>	\$ <u>1,060,356</u>	\$ <u>3,777,098</u>

The Notes to Financial Statements are an integral part of this statement.

CITY OF KINGSFORD
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year ended June 30, 2005

	<u>WATER UTILITY</u>	<u>SEWER UTILITY</u>	<u>TOTAL</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 421,672	\$ 332,502	\$ 754,174
Payments to suppliers	(123,804)	(49,339)	(173,143)
Payments to or on behalf of employees	(171,576)	(26,392)	(197,968)
Internal activity-payments from other funds	<u>6,947</u>	<u>42,140</u>	<u>49,087</u>
TOTAL CASH FLOWS FROM OPERATING ACTIVITIES	\$ 133,239	\$ 298,911	\$ 432,150
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Principal and interest paid on capital debt	\$ (28,333)	\$ 0	\$ (28,333)
Purchases of capital assets	0	0	0
Reduction of funding restricted accounts	<u>(2,141)</u>	<u>(254,558)</u>	<u>(256,699)</u>
TOTAL CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	\$ (30,474)	\$ (254,558)	\$ (285,032)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest earned	\$ <u>25,796</u>	\$ <u>6,892</u>	\$ <u>32,688</u>
NET INCREASE (DECREASE) IN CASH	\$ 128,561	\$ 51,245	\$ 179,806
Cash and equivalents - beginning	<u>995,550</u>	<u>34,566</u>	<u>1,030,116</u>
CASH AND EQUIVALENTS - ENDING	\$ <u>1,124,111</u>	\$ <u>85,811</u>	\$ <u>1,209,922</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES			
Operating income (loss)	\$ (65,939)	\$ 297,208	\$ 231,269
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities			
Depreciation	177,447	12,642	190,089
Change in Assets and Liabilities			
Receivables - net	(507)	(23,340)	(23,847)
Due from other funds	0	24,321	24,321
Accounts payable	6,364	3,575	9,939
Accrued payroll expense	8,927	51	8,978
Due to other funds	6,947	17,819	24,766
Due to other governmental units	<u>0</u>	<u>(33,365)</u>	<u>(33,365)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ <u>133,239</u>	\$ <u>298,911</u>	\$ <u>432,150</u>

The Notes to Financial Statements are an integral part of this statement.

CITY OF KINGSFORD
STATEMENT OF NET ASSETS
FIDUCIARY FUNDS
June 30, 2005

	<u>TRUST FUND TYPE</u>		<u>AGENCY FUND TYPE</u>
	<u>Police and Firemen's Pension Trust Fund</u>	<u>Retiree Insurance Trust Fund</u>	<u>Tax Collections</u>
ASSETS			
Cash and equivalents	\$ 6,629	\$ 11,909	\$ 8,638
Investments	9,063,480	0	0
Due from other governmental units	<u>0</u>	<u>0</u>	<u>856</u>
TOTAL ASSETS	\$ 9,070,109	\$ 11,909	\$ 9,494
LIABILITIES			
Accounts payable	\$ 195	\$ 0	\$ 0
Due to other funds	0	10,698	123
Due to other governmental units	0	0	856
Security deposits	0	0	8,515
Deferred revenue	<u>0</u>	<u>1,211</u>	<u>0</u>
TOTAL LIABILITIES	\$ <u>195</u>	\$ <u>11,909</u>	\$ <u>9,494</u>
NET ASSETS			
Held in trust for pension benefits	\$ <u>9,069,914</u>		
Held in trust for retiree insurance benefits		\$ <u>0</u>	

The Notes to Financial Statements are an integral part of this statement.

CITY OF KINGSFORD
STATEMENT OF CHANGES IN PLAN NET ASSETS
FIDUCIARY FUNDS
Year ended June 30, 2005

		<u>Police and Firemen's Pension Trust Fund</u>	<u>Retiree Insurance Trust Fund</u>
ADDITIONS			
Contributions			
Tax collections	\$	147,269	\$ 0
Employer		0	146,827
Plan members		<u>57,825</u>	<u>39,896</u>
Total Contributions	\$	205,094	\$ 186,723
Investment Income			
Net appreciation (depreciation) in fair value of investments	\$	363,534	\$ 0
Interest and dividends		295,043	49
Less investment expense		<u>(37,729)</u>	<u>0</u>
Net Investment Income	\$	<u>620,848</u>	\$ <u>49</u>
TOTAL ADDITIONS	\$	825,942	\$ 186,772
DEDUCTIONS			
Benefits paid	\$	391,796	\$ 186,772
Administrative expense		<u>9,791</u>	<u>0</u>
TOTAL DEDUCTIONS	\$	<u>401,587</u>	\$ <u>186,772</u>
NET INCREASE	\$	424,355	\$ 0
NET ASSETS HELD IN TRUST FOR PENSION OR RETIREE INSURANCE BENEFITS			
Beginning	\$	<u>8,645,559</u>	\$ <u>0</u>
ENDING	\$	<u><u>9,069,914</u></u>	\$ <u><u>0</u></u>

The Notes to Financial Statements are an integral part of this statement.

CITY OF KINGSFORD
STATEMENT OF NET ASSETS
COMPONENT UNIT
June 30, 2005

		<u>KINGSFORD HOUSING COMMISSION</u>
ASSETS		
CURRENT ASSETS		
Cash and equivalents	\$	66,364
Accounts receivable		3,015
Investments		294,281
Prepaid expenses		<u>12,005</u>
TOTAL CURRENT ASSETS	\$	375,665
NONCURRENT ASSETS		
Capital assets	\$	3,940,263
Less accumulated depreciation		<u>(2,927,383)</u>
TOTAL NON CURRENT ASSETS	\$	<u>1,012,880</u>
TOTAL ASSETS	\$	1,388,545
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	\$	11,312
Accrued liabilities		<u>38,660</u>
TOTAL CURRENT LIABILITIES	\$	49,972
OTHER LIABILITIES	\$	<u>21,926</u>
TOTAL LIABILITIES	\$	71,898
NET ASSETS		
Investment in capital assets, net of related debt	\$	1,012,880
Unrestricted net assets		<u>303,767</u>
NET ASSETS	\$	<u><u>1,316,647</u></u>

The Notes to Financial Statements are an integral part of this statement.

CITY OF KINGSFORD
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCE
 COMPONENT UNIT
 Year ended June 30, 2005

		<u>KINGSFORD HOUSING COMMISSION</u>
OPERATING REVENUES		
Tenant revenue	\$	160,731
Program grants - subsidies		179,340
Other		<u>4,856</u>
TOTAL OPERATING REVENUES	\$	344,927
OPERATING EXPENSES		
Administration	\$	94,740
Tenant services		781
Utilities		38,281
Maintenance		120,748
General		28,948
Extraordinary maintenance		3,675
Depreciation		<u>198,476</u>
TOTAL EXPENDITURES	\$	<u>485,649</u>
OPERATING (LOSS)	\$	(140,722)
OTHER INCOME (EXPENSES)		
Interest income	\$	7,268
(Loss) on sale of fixed assets		<u>0</u>
TOTAL OTHER INCOME (EXPENSES)	\$	<u>7,268</u>
CHANGE IN NET ASSETS	\$	(133,454)
Net assets - beginning		<u>1,450,101</u>
NET ASSETS - ENDING	\$	<u><u>1,316,647</u></u>

The Notes to Financial Statements are an integral part of this statement.

CITY OF KINGSFORD
STATEMENT OF CASH FLOWS
COMPONENT UNIT
Year ended June 30, 2005

	<u>KINGSFORD HOUSING COMMISSION</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 158,792
Receipts from grants and subsidies	180,746
Payments to suppliers	(119,992)
Payments to or on behalf of employees	(150,609)
Payment in lieu of taxes	(10,939)
Other receipts	<u>4,984</u>
TOTAL CASH FLOWS FROM OPERATING ACTIVITIES	\$ 62,982
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchases of capital assets	\$ <u>(90,636)</u>
TOTAL CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	\$ (90,636)
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from investments	\$ (6,606)
Investment income	<u>6,899</u>
TOTAL CASH FLOWS FROM INVESTING ACTIVITIES	\$ 293
NET INCREASE (DECREASE) IN CASH	\$ (27,361)
Cash and equivalents - beginning	<u>93,725</u>
CASH AND EQUIVALENTS - ENDING	\$ <u>66,364</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	
Operating income (loss)	\$ (140,722)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities	
Depreciation	198,476
Change in Assets and Liabilities	
Receivables - net	(406)
Prepaid expenses	(1,179)
Accounts payable	4,555
Accrued liabilities	<u>2,258</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ <u>62,982</u>

The Notes to Financial Statements are an integral part of this statement.

CITY OF KINGSFORD
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Kingsford (City) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City:

Reporting Entity

The City is governed by an elected five member council (Council). The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government. The City does not have any component units that are blended.

DISCRETELY PRESENTED COMPONENT UNIT

The following component unit is reported within the "component unit" column in the government wide financial statements. The discretely presented component unit is an entity that is legally separate from the City of Kingsford, but for which the City is financially accountable, or its relationship with the City is such that exclusion would cause the City's financial statements to be misleading or incomplete.

Kingsford Housing Commission

The Kingsford Housing Commission (KHC), which was established in 1972 under criteria established for low income housing programs by the United States Department of Housing and Urban Development is governed by a board of commissioners appointed by the City Council. Its purpose is to provide low cost housing to elderly and low income families in the City of Kingsford, Michigan. The separately issued audited financial statements of the Kingsford Housing Commission are available at its offices at 1025 Woodward Avenue, Kingsford, MI 49802.

JOINTLY GOVERNED ORGANIZATIONS

Joint Sewage Authority

The Iron Mountain-Kingsford Sewage Treatment Authority (Authority), was formed in 1960 under provisions established by the joint cooperation of the Cities of Iron Mountain and Kingsford, Michigan. The Plant operates under a board of commissioners consisting of the city manager of each City as well as a member appointed by the respective mayors of the Cities.

CITY OF KINGSFORD
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The City remits a portion of its metered sewer utility collections to the Authority. The City receives a collection stipend from the Authority of \$450 per month. The City also retains all sewer tap fees and service charges collected.

The audited financial statements of the Joint Sewage Authority are available at the Kingsford City Offices, temporarily located at 1500 Carter Drive, Kingsford, MI 49802.

Dickinson County Solid Waste Management Authority

The City of Kingsford along with other units of government in Dickinson County, Michigan jointly operate the Dickinson County Solid Waste Management Authority (DCSWMA). All of the financial operations of DCSWMA are recorded in the records of the County of Dickinson, Michigan. The City's appropriation to DCSWMA for the year was \$128,798.

The audit report for DCSWMA for the year ended June 30, 2005, is available at its offices at W-7702 US 2, Iron Mountain, MI 49801.

Government-Wide and Fund Financial Statements

The government-wide statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

CITY OF KINGSFORD
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Taxes Receivable—Current Property Taxes

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on July 1 and are due and payable at that time. All unpaid taxes levied July 1 become delinquent on the next August 15th.

Property tax revenues are recognized when they become available. Available includes those taxes expected to be collected within sixty days after year end. Since it is felt that certain delinquent taxes are not fully collectible, a reserve for uncollectible taxes of \$446 has been recorded in the City's General Fund.

The Taxable Value of the 2004-2005 taxable property is \$107,520,597. The City's total millage was 17.613 mills for operations, 1.391 mills for police and fire pension and 1.376 mills for debt service yielding tax levies of \$1,864,371, \$147,228, and \$145,640 respectively. The tax collection revenues as recorded in the funds vary slightly because of revenue recognition policies explained above and the adverse settlement of various property tax appeals from prior years.

The government reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

CITY OF KINGSFORD
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Major Street Fund accounts for the resources of state gas and weight tax revenues that are restricted for use on Major Streets.

The Local Street Fund accounts for the resources of state gas and weight tax revenues that are restricted for use on Local Streets.

The Small Cities Grant Loan Repayment Fund accounts for the loans to businesses and related repayment activities to enhance economic development.

The Equipment and Capital Fund is used to account for receipts (primarily transfers) and capital project and equipment expenditures on behalf of the other governmental funds.

The government reports the following major proprietary funds:

The Water Fund accounts for the activities of the water distribution system.

The Sewer Fund accounts for the activities of the sewer collection system.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected to also follow private-sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's water and sewer function and various other functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the City's proprietary funds relate to charges to customers for sales and services. The water and sewer funds also recognizes the portion of the fees intended to recover current costs (e.g.,

CITY OF KINGSFORD
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments— Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of six months or less when acquired. Investments are stated at fair value.

Receivables and Payables— In general, outstanding balances between funds are reported as “due to/from other funds.” Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as “due to/from other funds.”

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each July 1st on the taxable valuation of property as of the preceding December 31st. Taxes are considered delinquent on March 1st of the following year, at which time penalties and interest are assessed.

Inventories and Prepaid Items— Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets— The revenue bonds of the enterprise funds require amounts to be set aside for construction, debt service principal and interest, operations and maintenance, and a bond reserve. These amounts have been classified as restricted assets.

Capital Assets— Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

CITY OF KINGSFORD
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Interest incurred during the construction of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

Buildings	40 to 60 years
Building Improvements	15 to 30 years
Water and Sewer Lines	40 to 60 years
Roads	10 to 30 years
Other Infrastructure	10 to 40 years
Vehicles	3 to 5 years
Office Equipment	5 to 7 years
Computer Equipment	3 to 7 years

Compensated Absences (Vacation, Personal and Sick Leave)– It is the government’s policy to permit employees to accumulate earned but unused vacation, personal and sick pay benefits. There is a liability for unpaid accumulated sick leave since the government has a policy to pay a portion of the accumulated benefits to employees upon separation from service with the government in some circumstances. All vacation and personal leave pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year-end.

Long-Term Obligations– In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity– In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

CITY OF KINGSFORD
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Comparative Data/Reclassifications

Comparative total data for the prior year have been presented only for individual enterprise funds in the fund financial statements in order to provide an understanding of the changes in the financial position and operations of these funds. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

Excess of Expenditures Over Appropriations In Budgetary Funds

P.A. 621 of 1978, section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the City's actual expenditures, budgeted expenditures and related variances for the budgetary funds have been shown on an activity basis. The approved budgets of the City for these budgetary funds were adopted to the activity level.

Fund/Activity	Actual	Budget	Variance	%
General/Treasurer	70,976	66,305	4,671	7
General/Motor Vehicle Pool	120,506	115,060	5,446	5
General/Sanitation	255,327	239,675	15,652	7
General/Rubbish	94,928	90,340	4,588	5
General/Parks and Recreation	100,829	97,760	3,069	3
Major Streets/Traffic Service	9,138	0	9,138	~
Local Streets/Route Maintenance	90,916	83,200	7,716	9
Local Streets/Traffic Services	3,145	0	3,145	~

NOTE B - CASH AND INVESTMENTS

The City maintains segregated cash and investment accounts which are specific to the fund to which they are available. Deposits and investments are stated at market in accordance with Governmental Accounting Standards Board (GASB) Statement No. 31.

At year end, the carrying amount of the City's deposits (checking, savings, money market and certificates of deposit) was \$ 4,348,466. The City's deposits are in accordance with statutory authority. The bank balance that is uninsured and uncollateralized is \$3,948,466.

INVESTMENTS

Statutes of the State of Michigan authorize the City to invest in various bank deposit accounts and certain securities. There are no apparent provisions of the statutes requiring that the balances of such investments be partially or fully collateralized with pledged securities of the investee bank, etc.

CITY OF KINGSFORD
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

NOTE B - CASH AND INVESTMENTS (CONTINUED)

The City held such investments during the year, including those of the pension trust which is authorized to invest in various instruments in accordance with the provisions of Act 345 of the State of Michigan's Public Acts of 1937 establishing a municipally administered Police and Firemen's Retirement System.

As of June 30, 2005, the pension trust investments consisted of obligations of the United States Treasury, some domestic corporations and common stocks of U.S. corporations. These investments that are represented by specific identifiable investment securities are classified as to credit risk by the three categories described below:

Category 1 - Insured or registered, or securities held by the City or its agent in the City's name.

Category 2 - Uninsured and unregistered, with securities held by the counterparty's trust department.

Category 3 - Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the City's name.

	<u>Category</u>		
	<u>1</u>	<u>2</u>	<u>3</u>
Cash and equivalent	\$ 411,228	\$ 0	\$ 0
U.S. Treasury	2,345,961	0	0
Corporate bonds	951,626	0	0
Corporate stocks	<u>5,354,666</u>	<u>0</u>	<u>0</u>
TOTALS	\$ 9,063,481	\$ 0	\$ 0

NOTE C - PENSION PLANS

MUNICIPAL EMPLOYEES RETIREMENT SYSTEM

PLAN DESCRIPTION

On July 1, 2001, the City adopted employees' Pension Plan B-3 of the Municipal Employees' Retirement System for all eligible employees and elected participation in Benefits E and E-2 with F55 waiver. The plan is a agent multiple-employer pension plan. Normal retirement benefits are paid employees retiring at age 60 with 10 or more years of service. The F55 waiver allows a full pension to be paid to retirees less than 60 years old if they have attained the age of 55 and have 15 or more years of credited service. The provisions of the pension plan include that a maximum of 80% of Final Average Compensation is used to determine pension benefit values.

CITY OF KINGSFORD
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

NOTE C - PENSION PLANS (CONTINUED)

ACTUARIAL ACCRUED LIABILITY

The actuarial accrued liability was determined as part of an actuarial valuation of the plan as of December 31, 2004.

GASB 25 INFORMATION

Actuarial Accrued Liability:

Retirees and beneficiaries currently receiving benefits	\$ 1,400,010
Terminated employees not yet receiving benefits	27,977
Non-vested terminated employees (refund of contribution)	456
Current employees:	
Accumulated employee contributions including	
allocated investment income	589,111
Employer financed	<u>2,268,769</u>
 TOTAL ACTUARIAL ACCRUED LIABILITY	 \$ 4,286,323
 Net Assets Available for benefits, at actuarial value	 <u>3,797,453</u>
 UNFUNDED ACTUARIAL ACCRUED LIABILITY	 \$ 488,870

GASB 27 INFORMATION

Fiscal year beginning	July 1, 2006
Annual required contribution	\$ 87,144

POLICE AND FIREMEN'S PENSION PLAN

PLAN DESCRIPTION

On July 1, 1960 the City adopted a Police and Firemen's Retirement system pursuant to Act 345 of the Public Acts of 1937, as amended. The retirement system covers all full time employees of the City's public safety department. The Police and Firemen's Pension Plan (P&FPP) is a single employer defined benefit pension plan administered by the City of Kingsford Police and Firemen Pension Board. P&FPP provides retirement, disability, and death benefits to plan members and beneficiaries. Cost of living adjustments are provided to members and beneficiaries retiring after July 1, 1997 on each January 1 at the rate of 2.5% per year. The City Council has retained the right

CITY OF KINGSFORD
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

NOTE C - PENSION PLANS (CONTINUED)

to establish and amend benefit provisions of the plan. The financial reports for P&FPP are issued as part of the City of Kingsford's annual financial reports and include plan financial statements and required supplementary disclosures.

ACCRUED ACTUARIAL LIABILITY

The actuarial accrued liability was determined as part of an actuarial valuation of the plan as of June 30, 2004.

GASB 25 INFORMATION

Actuarial Accrued Liability:

Retirees and beneficiaries currently receiving benefits	\$ 1,306,787
Terminated employees not yet receiving benefits	0
Current employees:	
Accumulated employee contributions including	
allocated investment income	704,313
Future retirement health benefits	503,081
Employer financed	<u>6,369,314</u>
 TOTAL ACTUARIAL ACCRUED LIABILITY	 \$ 8,883,495
 Net Assets Available for benefits, at actuarial value	 <u>9,525,699</u>
 (OVERFUNDED) ACTUARIAL ACCRUED LIABILITY	 <u><u>\$ (642,204)</u></u>

GASB 27 INFORMATION

Fiscal year beginning	July 1, 2006
Annual required contribution	\$ 184,360

CITY OF KINGSFORD
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

NOTE D - DUE TO/FROM OTHER FUNDS

During the course of normal operations, the City has numerous transactions between funds including expenditures and transfers of resources primarily to provide services. Such transactions are generally reflected as transfers in the various funds' financial statements. A summary of balances of interfund receivables and payables at June 30, 2005, follows:

Receivable	Payable	Amount
General	Major Street	\$ 30,354
General	Local Street	68,203
General	Land Sales	6,480
General	Small Cities Loan	1,843
General	Water Utility	26,490
General	Sewer Utility	17,819
General	Tax Collection	123
General	Retiree Health	10,698
Local Streets	Major Streets	53,760

NOTE E - FIXED ASSETS

Capital asset activity of the primary government for the current year was as follows:

<u>Governmental Activities</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets Being Depreciated				
Land	\$ 758,400	\$ 16	\$ 5,000	\$ 753,416
Buildings	5,024,509	564,816	0	5,589,325
Machinery and Equipment	1,617,594	46,421	0	1,664,015
Infrastructure	6,148,902	188,930	0	6,337,832
Subtotal	\$ 13,549,405	\$ 800,183	\$ 5,000	\$ 14,344,588
Less Accumulated Depreciation for				
Buildings	\$ 1,970,052	\$ 92,367	\$ 0	\$ 2,062,419
Machinery and Equipment	1,065,346	72,513	0	1,137,859
Infrastructure	1,963,956	249,635	0	2,213,591
Subtotal	\$ 4,999,354	\$ 414,515	\$ 0	\$ 5,413,869
Governmental Activities Capital Total				
Capital Assets--Net of Depreciation	\$ 8,550,051	\$ 385,668	\$ 5,000	\$ 8,930,719

CITY OF KINGSFORD
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

NOTE E - FIXED ASSETS (CONTINUED)

<u>Business-Type Activities</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets Being Depreciated				
Sewer System	\$ 532,207	\$ 0	\$ 0	\$ 532,207
Water System	4,673,774	0	0	4,673,774
Subtotal	\$ 5,205,981	\$ 0	\$ 0	\$ 5,205,981
Less Accumulated Depreciation for				
Sewer System	\$ 31,718	\$ 12,642	\$ 0	\$ 44,360
Water System	2,475,256	177,447	0	2,652,703
Subtotal	\$ 2,506,974	\$ 190,089	\$ 0	\$ 2,697,063
Business Type Activities Capital Total				
Capital Assets--Net of Depreciation	\$ 2,699,007	\$ (190,089)	\$ 0	\$ 2,508,918

Depreciation expense was charged to programs of the primary government as follows:

Governmental Activities	
General Government	\$ 642
Public Safety	34,160
Public Works	<u>379,713</u>
Total Governmental Activities	<u>\$ 414,515</u>
Business-Type Activities	
Water	\$ 177,447
Sewer	<u>12,642</u>
Total Business-Type Activities	<u>\$ 190,089</u>

CITY OF KINGSFORD
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

NOTE F - FIRST SERIES BOND OF KINGSFORD WATER SUPPLY SYSTEM REVENUE BOND

On July 18, 1995, the City of Kingsford issued serial revenue bonds in the amount of \$676,000 for improvements to its water supply system. A retirement schedule and a description of the bonds is below:

Payable Fiscal Year	October 1		April 1		Total
	Interest	Principal	Interest		
2005-2006	\$ 11,610	\$ 10,000	\$ 11,385	\$	32,995
2006-2007	11,385	10,000	11,160		32,545
2007-2008	11,160	10,000	10,935		32,095
2008-2009	10,935	10,000	10,710		31,645
2009-2010	10,710	10,000	10,485		31,195
2010+	<u>137,745</u>	<u>466,000</u>	<u>127,260</u>		<u>731,005</u>
TOTALS	\$ 193,545	\$ 516,000	\$ 181,935	\$	891,480

In 1995, the City completed a water system upgrade and expansion. The project was financed with revenue bonds. The bond was purchased in its entirety by the Rural Development Agency of the United States Department of Agriculture. This bond will be repaid with the revenues generated by charges to water customers. Principal repayments are due annually on each October 1, through 2034. Interest is paid semi-annually on October 1 and April 1 of each year at a rate of 4.5%.

NOTE G - UNLIMITED TAX GENERAL OBLIGATION BOND - PUBLIC WORKS BUILDING

The City issued an unlimited tax general obligation bond to the Rural Development Agency of the US Department of Agriculture. The proceeds are being used to construct a replacement Public Works facility for the City. The loan is due in annual installments as set forth in the Schedule of Debt and Interest on each March 1, through 2028 with interest payable at 4.75%. The cumulative debt service schedule is below:

Payable Fiscal Year	March 1		September 1		Total
	Interest	Principal	Interest		
2005-2006	\$ 52,431	\$ 40,000	\$ 52,431	\$	144,862
2006-2007	51,481	45,000	51,481		147,962
2007-2008	50,412	45,000	50,412		145,824
2008-2009	49,343	50,000	49,343		148,686
2009-2010	48,156	50,000	48,156		146,312
2010+	<u>504,138</u>	<u>1,977,600</u>	<u>504,138</u>		<u>2,985,876</u>
TOTALS	\$ 755,961	\$ 2,207,600	\$ 755,961	\$	3,719,522

CITY OF KINGSFORD
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

NOTE G - UNLIMITED TAX GENERAL OBLIGATION BOND (CONTINUED)

The bond was purchased in its entirety by the Rural Development Agency of the US Department of Agriculture. This bond will be repaid with annual tax collections that will vary in rate to insure coverage of its annual debt responsibility. Principal repayments are due annually on each March 1, through 2028. Interest is paid semi-annually on March 1 and September 1 of each year at a rate of 4.75%.

NOTE H - COMPENSATED ABSENCES

Pursuant to the requirements of the Governmental Accounting Standards Board Statement 16, the City accrues a liability for compensated absences which meet the following criteria:

1. The City's obligation related to employees' rights to receive compensation for future absences is attributable to employees' services already rendered.
2. The obligation relates to rights that vest or accumulate.
3. Payment of compensation is probable.
4. The amount can be reasonably estimated.

In accordance with the above criteria, the City has calculated a liability for sick, personal and vacation leave which has been earned but not taken by City employees.

For governmental funds, a portion of the liability for the vacation, sick and personal leave absences are recorded in applicable funds as earned and that were subsequently liquidated with "expendable and available assets". The total accrued vacation, sick and personal leave earned but not taken as of June 30, 2005, is \$100,508, \$314,073 and \$20,580 respectively. The total accrued sick leave that will be paid upon termination of employment to employees in accordance with bargaining unit contracts and City policies is \$28,755 as of June 30, 2005. For proprietary funds, the liabilities are recorded in the applicable funds as accrued liabilities in accordance with FASB Statement 43.

Specifically, the various contracts and agreements covering the City's personnel allow for the vesting and/or accumulation of leave as follows:

Public Safety Department Employees:

Sick Leave:

Covered employees may accumulate up to 1088 hours of sick leave. Fifty percent (50%) of the first 800 hours of such unused sick leave hours will be paid upon termination or retirement from employment, except for those persons first employed after July 1, 1977 in which case they will be required to work until retirement in order to qualify for the payment of accumulated benefits.

CITY OF KINGSFORD
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

NOTE H - COMPENSATED ABSENCES (continued)

Vacation:

Covered employees are granted annual credit toward vacation with pay based on a longevity schedule. The credit granted will range from 36 - 168 hours. All employees except department heads must use their vacation accrual during the calendar year or forfeit the benefit. Department heads are allowed to carryforward one week of vacation time to the next year but must use that benefit during the first quarter or forfeit the benefit.

Personal Leave Days:

Covered employees except department heads are granted three personal leave days at the beginning of each calendar year with such days to be taken within the calendar year. All employees except department heads must use their personal time accrual during the calendar year or forfeit the benefit. Department heads are granted four personal days at the beginning of each calendar year. All time must be taken prior to February of the succeeding year or the benefit will be forfeited.

Public Works Employees:

Sick Leave:

Covered employees may accumulate up to 1088 hours of sick leave. Fifty percent (50%) of the first 100 days of such unused sick leave hours will be paid upon termination or retirement from employment, except for those persons first employed after July 1, 1984 in which case they will be required to work until retirement or death in order to qualify for the payment of the accumulated benefits.

Vacation:

Covered employees are granted annual credit toward vacation with pay based on a longevity schedule. The credit granted will range from 40 - 200 hours. All employees except department heads must use their vacation accrual during the calendar year or forfeit the benefit. Department heads are allowed to carryforward one week of vacation time to the next year but must use that benefit during the first quarter or forfeit the benefit.

Personal Leave Days:

Covered employees except department heads are entitled to three personal leave days per calendar year. Such days are charged to accumulated sick time when taken. Department heads are entitled to four personal leave days per calendar year and such days are charged to accumulated sick time when taken.

All Other City Employees:

Sick Leave:

Covered employees may accumulate up to 1088 hours of sick leave. Fifty percent (50%) of the first 800 hours of such unused sick leave hours will be paid upon termination or retirement from employment, except for those persons first employed after July 1, 1984 in

CITY OF KINGSFORD
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

NOTE H - COMPENSATED ABSENCES (continued)

All Other City Employees (continued):

which case they will be required to work until retirement in order to qualify for the payment of accumulated benefits.

Vacation:

Covered employees are granted annual credit toward vacation with pay based on a longevity schedule. The credit granted will range from 40 - 200 hours. All employees except department heads must use their vacation accrual during the calendar year or forfeit the benefit. Department heads are allowed to carryforward one week of vacation time to the next year but must use that benefit during the first quarter or forfeit the benefit.

Personal Leave Days:

Covered employees except department heads are granted three personal leave days at the beginning of each calendar year with such days to be taken within the calendar year. Such days are charged to accumulated sick time when taken.

Department heads are granted four personal leave days at the beginning of each calendar year with such days to be taken within the calendar year. All personal leave days taken are charged to the employee's accumulated sick time.

NOTE I - RETIREES HOSPITAL AND MEDICAL TRUST FUND

Pursuant to Council resolution, the City has provided hospital and medical insurance coverage for qualifying retired employees since October 15, 1981 and has accounted for such transactions within the Retirees Hospital and Medical Trust Fund.

Retired employees that are 62 years of age or greater are entitled to purchase health insurance through the City's health plan with a substantial portion of the cost being paid by the City. Retired employees that are less than 62 years of age are entitled to purchase health insurance through the City's health plan with the employee bearing a substantial portion of the cost.

Because of the rising cost of insurance and more retirees being covered under the Trust Fund, the approved transfer from the general fund has required supplemental transfers, also from the general fund, with the cumulative transfer increasing by more than 7% over the prior year. The City has been making a general fund contribution annually to fund their portion of the liability. The 2004-2005 contribution was \$146,827. The City has had an actuarial determination made of the expected future liability for this benefit. No liability is reflected in the financial statements for this amount since the aggregated plan is presently overfunded.

The retiree health benefits for the Public Safety Officers are paid directly through the pension plan. As such, the plan will absorb the Public Safety portion of the cost.

CITY OF KINGSFORD
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

NOTE J - SEWAGE DISPOSAL AGREEMENT

The City has a long-term agreement with the Iron Mountain-Kingsford Joint Sewage Authority for sewage treatment. The agreement is established by an ordinance which provides for the sewer rates, minimum monthly charges and a monthly collection fee for billing services. These rates can be adjusted periodically through ordinance amendments.

NOTE K - RISK MANAGEMENT

The City of Kingsford is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City of Kingsford maintains commercial insurance covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the City. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

REQUIRED
SUPPLEMENTAL
INFORMATION

CITY OF KINGSFORD
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
Year ended June 30, 2005

	<u>ORIGINAL BUDGET</u>	<u>AMENDED BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH AMENDED BUDGET</u>
Beginning Fund Balance	\$ 1,947,777	\$ 2,104,778	\$ 2,112,177	\$ 7,399
Resources (Inflows)				
Property taxes	1,910,880	1,911,425	1,884,802	(26,623)
Federal grants	0	0	0	0
State shared revenues and grants	649,866	650,052	639,326	(10,726)
Licenses and permits	0	0	106	106
Fines and forfeitures	12,750	12,825	25,317	12,492
Charges for services	91,400	91,400	92,597	1,197
Interest and rentals	427,434	449,015	461,673	12,658
Sale of property and supplies	36,000	36,000	43,451	7,451
Refunds and reimbursements	8,860	7,058	21,055	13,997
Insurance claim	0	395,741	726,841	331,100
Other	<u>1,000</u>	<u>1,000</u>	<u>6,818</u>	<u>5,818</u>
AMOUNTS AVAILABLE FOR APPROPRIATION	\$ <u>5,085,967</u>	\$ <u>5,659,294</u>	\$ <u>6,014,163</u>	\$ <u>354,869</u>
Charges to Appropriations (Outflows)				
General Government				
City council	\$ 30,905	\$ 30,905	\$ 22,271	\$ 8,634
City manager	98,590	98,590	88,582	10,008
Other administration	64,815	64,815	44,733	20,082
Elections	6,190	12,775	9,179	3,596
Assessor/Board of review	67,285	67,285	63,323	3,962
Clerk	112,990	112,990	98,511	14,479
Treasurer	66,305	66,305	70,976	(4,671)
City hall, property and grounds	44,340	440,081	25,439	414,642
Public Safety	1,347,630	1,335,030	1,316,255	18,775
Public Works				
Planning	1,125	6,625	276	6,349
Maintenance	389,965	389,965	355,598	34,367
Alleys	3,960	3,960	3,867	93
Sidewalks	8,375	11,000	10,711	289
Christmas decorations	4,910	8,510	1,699	6,811
Easton environmental study	1,085	1,085	0	1,085
Motor vehicle pool	115,060	115,060	120,506	(5,446)
Street supplies	56,465	58,740	54,477	4,263
Street lighting	46,530	46,530	46,509	21
Sanitation	239,675	239,675	255,327	(15,652)
Rubbish	90,340	90,340	94,928	(4,588)
Parks and Recreation	97,760	97,760	100,829	(3,069)
Insurance and Benefits	138,700	138,700	113,938	24,762
Leases and Rentals	3,500	3,500	401	3,099
Capital outlay	0	12,600	12,575	25
Transfers to other funds	<u>1,257,846</u>	<u>1,257,846</u>	<u>788,053</u>	<u>469,793</u>
TOTAL CHARGES TO APPROPRIATIONS	\$ <u>4,294,346</u>	\$ <u>4,710,672</u>	\$ <u>3,698,963</u>	\$ <u>1,011,709</u>
BUDGETARY FUND BALANCE--ENDING	\$ <u>791,621</u>	\$ <u>948,622</u>	\$ <u>2,315,200</u>	\$ <u>1,366,578</u>

CITY OF KINGSFORD
BUDGETARY COMPARISON SCHEDULE
MAJOR STREET FUND
Year ended June 30, 2005

	<u>ORIGINAL</u> <u>BUDGET</u>	<u>AMENDED</u> <u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH</u> <u>AMENDED BUDGET</u>
Beginning Fund Balance	\$ 325,494	\$ 325,494	\$ 325,494	\$ 0
Resources (Inflows)				
State shared revenues	367,330	367,330	381,590	14,260
Interest earned	2,000	2,000	6,595	4,595
Other	0	0	0	0
Transfers from other funds	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
AMOUNTS AVAILABLE FOR APPROPRIATION	\$ 694,824	\$ 694,824	\$ 713,679	\$ 18,855
Charges to Appropriations (Outflows)				
Construction	\$ 137,545	\$ 137,545	\$ 68,989	\$ 68,556
Route maintenance	83,815	83,815	74,455	9,360
Traffic services	0	0	9,138	(9,138)
Signs and signals	12,540	12,540	2,086	10,454
Winter maintenance	124,920	124,920	88,463	36,457
Administration	73,815	73,815	7,047	66,768
Transfers to other funds	<u>53,760</u>	<u>53,760</u>	<u>53,760</u>	<u>0</u>
TOTAL CHARGES TO APPROPRIATIONS	\$ <u>486,395</u>	\$ <u>486,395</u>	\$ <u>303,938</u>	\$ <u>182,457</u>
BUDGETARY FUND BALANCE--ENDING	\$ <u><u>208,429</u></u>	\$ <u><u>208,429</u></u>	\$ <u><u>409,741</u></u>	\$ <u><u>201,312</u></u>

CITY OF KINGSFORD
BUDGETARY COMPARISON SCHEDULE
LOCAL STREET FUND
Year ended June 30, 2005

	<u>ORIGINAL BUDGET</u>	<u>AMENDED BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH AMENDED BUDGET</u>
Beginning Fund Balance	\$ 12,090	\$ 12,090	\$ 12,090	\$ 0
Resources (Inflows)				
State shared revenues	134,050	134,050	142,411	8,361
Interest earned	500	500	233	(267)
Other	0	0	196	196
Transfers from other funds	<u>203,760</u>	<u>203,760</u>	<u>106,230</u>	<u>(97,530)</u>
AMOUNTS AVAILABLE FOR APPROPRIATION	\$ 350,400	\$ 350,400	\$ 261,160	\$ (89,240)
Charges to Appropriations (Outflows)				
Construction	\$ 245,830	\$ 245,830	\$ 104,940	\$ 140,890
Route maintenance	83,200	83,200	90,916	(7,716)
Traffic services	0	0	3,145	(3,145)
Winter maintenance	78,480	78,480	54,848	23,632
Administration	<u>5,800</u>	<u>5,800</u>	<u>2,524</u>	<u>3,276</u>
TOTAL CHARGES TO APPROPRIATIONS	\$ <u>413,310</u>	\$ <u>413,310</u>	\$ <u>256,373</u>	\$ <u>156,937</u>
BUDGETARY FUND BALANCE--ENDING	\$ <u>(62,910)</u>	\$ <u>(62,910)</u>	\$ <u>4,787</u>	\$ <u>67,697</u>

CITY OF KINGSFORD
BUDGETARY COMPARISON SCHEDULE
SMALL CITIES GRANT LOAN REPAYMENT FUND
Year ended June 30, 2005

	<u>ORIGINAL BUDGET</u>	<u>AMENDED BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH AMENDED BUDGET</u>
Beginning Fund Balance			\$ 257,861	\$ 257,861
Resources (Inflows)				
Principal repaid			100,985	100,985
Interest earned			<u>29,093</u>	<u>29,093</u>
AMOUNTS AVAILABLE FOR APPROPRIATION	BUDGET NOT PREPARED	BUDGET NOT PREPARED	\$ 387,939	\$ 387,939
Charges to Appropriations (Outflows)				
General government			\$ <u>1,460</u>	\$ <u>(1,460)</u>
TOTAL CHARGES TO APPROPRIATIONS			\$ <u>1,460</u>	\$ <u>(1,460)</u>
BUDGETARY FUND BALANCE--ENDING			\$ <u>386,479</u>	\$ <u>386,479</u>

CITY OF KINGSFORD
BUDGETARY COMPARISON SCHEDULE
EQUIPMENT AND CAPITAL IMPROVEMENT FUND
Year ended June 30, 2005

	<u>ORIGINAL BUDGET</u>	<u>AMENDED BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH AMENDED BUDGET</u>
Beginning Fund Balance	\$ 56,742	\$ 56,742	\$ 56,742	\$ 0
Resources (Inflows)				
Interest earned	1,200	1,200	1,039	(161)
Transfers from other funds	<u>730,556</u>	<u>730,556</u>	<u>588,755</u>	<u>(141,801)</u>
AMOUNTS AVAILABLE FOR APPROPRIATION	\$ 788,498	\$ 788,498	\$ 646,536	\$ (141,962)
Charges to Appropriations (Outflows)				
Capital outlay				
Hall and grounds	\$ 565,000	\$ 565,000	\$ 529,039	\$ 35,961
Public safety	88,250	88,250	30,639	57,611
Parks and recreation	72,008	72,008	0	72,008
Public works - other	<u>88,502</u>	<u>88,502</u>	<u>53,984</u>	<u>34,518</u>
TOTAL CHARGES TO APPROPRIATIONS	\$ <u>813,760</u>	\$ <u>813,760</u>	\$ <u>613,662</u>	\$ <u>200,098</u>
BUDGETARY FUND BALANCE--ENDING	\$ <u>(25,262)</u>	\$ <u>(25,262)</u>	\$ <u>32,874</u>	\$ <u>58,136</u>

CITY OF KINGSFORD
MERS PENSION FUNDING AND STATISTICS
JUNE 30, 2005

SCHEDULE OF FUNDING PROGRESS

<u>ACTUARIAL VALUATION DATE</u>	<u>ACTUARIAL VALUE OF ASSETS</u>	<u>ACTUARIAL ACCRUED LIABILITY</u>	<u>UNFUNDED AAL (UAAL)</u>	<u>FUNDED RATIO</u>	<u>COVERED PAYROLL</u>	<u>UAAL AS A PERCENTAGE OF COVERED PAYROLL</u>
31-Dec-02	3,420,325	3,400,020	20,305	101%	786,576	-
31-Dec-03	3,599,761	3,880,429	(280,668)	93%	810,886	-35%
31-Dec-04	3,797,453	4,286,323	(488,870)	89%	877,801	-56%

SCHEDULE OF EMPLOYER CONTRIBUTIONS:

<u>YEAR ENDED</u>	<u>ANNUAL REQUIRED CONTRIBUTION</u>	<u>PERCENTAGE CONTRIBUTED</u>
31-Dec-02	53,428	100%
31-Dec-03	53,838	100%
31-Dec-04	79,819	100%

THE INFORMATION PRESENTED ABOVE WAS DETERMINED AS PART OF THE ACTUARIAL VALUATION AT THE DATES INDICATED. ADDITIONAL INFORMATION AS OF THE LATEST ACTUARIAL VALUATION IS AS FOLLOWS:

ACTUARIAL COST METHOD	ENTRY AGE NORMAL
AMORTIZATION METHOD	LEVEL PERCENTAGE OF PAYROLL
AMORTIZATION PERIOD	30 YEARS, OPEN
ASSET VALUATION METHOD	ADJUSTED 5 YEAR SMOOTHED MARKET
ACTUARIAL ASSUMPTIONS	
INVESTMENT RATE OF RETURN	8.00%
PROJECTED SALARY INCREASES*	4.5% - 8.16%
*INCLUDES MERIT/LONGEVITY INCREASES	0% - 4.16%
INFLATION	3% - 4%
OTHER	1994 GROUP MORTALITY TABLE

CITY OF KINGSFORD
POLICE AND FIREMEN'S PENSION FUNDING AND STATISTICS
JUNE 30, 2005

SCHEDULE OF FUNDING PROGRESS

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS	ACTUARIAL ACCRUED LIABILITY	(UNFUNDED) OVERFUNDED ACTUARIAL LIABILITY	FUNDED RATIO	COVERED PAYROLL	UAAL AS A PERCENTAGE OF COVERED PAYROLL
30-Jun-02	9,493,254	7,217,567	2,275,687	132%	946,831	-
30-Jun-03	9,570,603	8,425,630	1,144,973	114%	896,360	-
30-Jun-04	9,525,699	8,883,495	642,204	107%	925,062	-

NOTE - 2003 AND 2004 INCLUDES POST-RETIREMENT HEALTH CARE INSURANCE COSTS

SCHEDULE OF EMPLOYER CONTRIBUTIONS:

YEAR ENDED	ANNUAL REQUIRED CONTRIBUTION	PERCENTAGE CONTRIBUTED
30-Jun-02	86,976	100%
30-Jun-03	100,088	100%
30-Jun-04	127,139	100%

NOTE - 2003 AND 2004 INCLUDES POST-RETIREMENT HEALTH CARE INSURANCE COSTS

THE INFORMATION PRESENTED ABOVE WAS DETERMINED AS PART OF THE ACTUARIAL VALUATION AT THE DATES INDICATED. ADDITIONAL INFORMATION AS OF THE LATEST ACTUARIAL VALUATION IS AS FOLLOWS:

ACTUARIAL COST METHOD	ENTRY AGE NORMAL
AMORTIZATION METHOD	INDIVIDUAL ENTRY AGE
AMORTIZATION PERIOD	30 YEARS, OPEN
ASSET VALUATION METHOD	5 YEAR SMOOTHED MARKET
ACTUARIAL ASSUMPTIONS	
INVESTMENT RATE OF RETURN	7.00%
PROJECTED SALARY INCREASES*	5.2% - 8.5%
*INCLUDES MERIT/LONGEVITY INCREASES	0% - 3.5%
INFLATION	3%
COST OF LIVING ADJUSTMENT	2.50%
OTHER	1971 GROUP MORTALITY TABLE

ADDITIONAL
INFORMATION

CITY OF KINGSFORD
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENT FUNDS
June 30, 2005

	<u>SPECIAL REVENUE</u>	<u>DEBT SERVICE</u>	<u>TOTAL</u>
	LAND SALES, PURCHASES AND DEVELOPMENT	1998 PUBLIC WORKS DEBT SERVICE	NON-MAJOR GOVERNMENTAL FUNDS
Assets			
Cash and equivalents	\$ 6,907	\$ 40,762	\$ 47,669
Taxes receivable	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL ASSETS	\$ <u>6,907</u>	\$ <u>40,762</u>	\$ <u>47,669</u>
Liabilities and Fund Equity			
Liabilities			
Accounts payable	\$ 0	\$ 0	\$ 0
Accrued payroll	0	0	0
Due to other funds	<u>6,480</u>	<u>0</u>	<u>6,480</u>
TOTAL LIABILITIES	\$ 6,480	\$ 0	\$ 6,480
Fund Balance			
Reserved	\$ 0	\$ 0	\$ 0
Designated	0	0	0
Unreserved, undesignated	<u>427</u>	<u>40,762</u>	<u>41,189</u>
TOTAL FUND EQUITY	\$ <u>427</u>	\$ <u>40,762</u>	\$ <u>41,189</u>
TOTAL LIABILITIES AND FUND EQUITY	\$ <u>6,907</u>	\$ <u>40,762</u>	\$ <u>47,669</u>

CITY OF KINGSFORD
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
NON-MAJOR GOVERNMENT FUNDS
Year ended June 30, 2005

	<u>SPECIAL REVENUE</u>	<u>DEBT SERVICE</u>	<u>TOTAL</u>
	LAND SALES, PURCHASES AND DEVELOPMENT	1998 PUBLIC WORKS DEBT SERVICE	NON-MAJOR GOVERNMENTAL FUNDS
Revenues			
Property taxes	\$ 0	\$ 145,042	\$ 145,042
Interest earned	238	1,509	1,747
Sales of property	7,099	0	7,099
Other	0	0	0
State shared revenues	0	0	0
	<hr/>	<hr/>	<hr/>
TOTAL REVENUES	\$ 7,337	\$ 146,551	\$ 153,888
Expenditures			
General government	\$ 13,046	\$ 0	\$ 13,046
Public works	0	0	0
Debt service	0	146,760	146,760
Capital outlay	17	0	17
	<hr/>	<hr/>	<hr/>
TOTAL EXPENDITURES	\$ 13,063	\$ 146,760	\$ 159,823
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ (5,726)	\$ (209)	\$ (5,935)
Other Financing Sources (Uses)			
Transfer from other funds	\$ 0	\$ 0	\$ 0
Transfer to other funds	0	0	0
	<hr/>	<hr/>	<hr/>
TOTAL OTHER FINANCING SOURCES (USES)	\$ 0	\$ 0	\$ 0
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	\$ (5,726)	\$ (209)	\$ (5,935)
Fund Balances - beginning	6,153	40,971	47,124
	<hr/>	<hr/>	<hr/>
FUND BALANCE - ENDING	\$ 427	\$ 40,762	\$ 41,189

CITY OF KINGSFORD
WATER UTILITY FUND
BALANCE SHEET
June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
ASSETS		
Current Assets:		
Cash and equivalents	\$ 1,124,111	\$ 995,550
Accounts receivable	48,448	47,941
Due from other funds	0	0
TOTAL CURRENT ASSETS	\$ 1,172,559	\$ 1,043,491
Restricted Assets:		
Repair and reconstruction fund	\$ 55,831	\$ 54,578
Bond reserve account	44,280	43,392
TOTAL RESTRICTED ASSETS	\$ 100,111	\$ 97,970
Property, plant and equipment:		
Water system	\$ 4,673,774	\$ 4,673,774
Less accumulated depreciation	(2,652,702)	(2,475,256)
TOTAL PROPERTY, PLANT AND EQUIPMENT	\$ 2,021,072	\$ 2,198,518
TOTAL ASSETS	\$ <u>3,293,742</u>	\$ <u>3,339,979</u>
LIABILITIES		
Current Liabilities:		
Accounts payable	\$ 12,705	\$ 6,341
Accrued payroll expenses	16,000	7,073
Accrued interest	5,805	5,861
Due to other funds	26,490	19,543
Current portion of long term debt	10,000	5,000
TOTAL CURRENT LIABILITIES	\$ 71,000	\$ 43,818
LONG TERM DEBT - Bonds payable	\$ <u>506,000</u>	\$ <u>516,000</u>
TOTAL LIABILITIES	\$ 577,000	\$ 559,818
FUND EQUITY		
Contributed capital:		
Federal government - capital grant	\$ 419,625	\$ 450,950
Municipality	1,615,392	1,615,392
Retained earnings:		
Reserved	100,111	97,970
Designated	570,000	305,000
Unreserved, undesignated	11,614	310,849
TOTAL FUND EQUITY	\$ <u>2,716,742</u>	\$ <u>2,780,161</u>
TOTAL LIABILITIES AND FUND EQUITY	\$ <u>3,293,742</u>	\$ <u>3,339,979</u>

CITY OF KINGSFORD
WATER UTILITY FUND
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
ACTUAL, BUDGET AND PRIOR YEAR
Years ended June 30, 2005 and 2004

	<u>2004-05</u>			<u>2003-04</u>
	<u>ACTUAL</u>	<u>AMENDED BUDGET</u>	<u>VARIANCE</u>	<u>ACTUAL</u>
OPERATING REVENUES				
Charges for services:				
Water sales	\$ 416,368	\$ 363,000	\$ 53,368	\$ 400,750
Taps, thaws and shutoffs	2,480	1,300	1,180	1,675
Late payment penalties	3,332	0	3,332	3,755
Other	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL OPERATING REVENUES	\$ 422,180	\$ 364,300	\$ 57,880	\$ 406,180
OPERATING EXPENSES				
Source of supply	\$ 102,846	\$ 201,920	\$ 99,074	\$ 94,753
Distribution	175,181	259,525	84,344	152,745
Clerical and administrative	32,645	42,315	9,670	31,117
Depreciation	<u>177,447</u>	<u>178,000</u>	<u>553</u>	<u>178,621</u>
TOTAL OPERATING EXPENSES	\$ 488,119	\$ 681,760	\$ 193,641	\$ 457,236
NET OPERATING INCOME (LOSS)	\$ (65,939)	\$ (317,460)	\$ 251,521	\$ (51,056)
NON-OPERATING GAINS/LOSSES				
Interest earned	\$ 25,796	\$ 20,000	\$ 5,796	\$ 29,511
Interest expense	<u>(23,276)</u>	<u>(27,832)</u>	<u>4,556</u>	<u>(23,501)</u>
NET INCOME (LOSS)	\$ (63,419)	\$ (325,292)	\$ 261,873	\$ (45,046)
Add depreciation of fixed assets acquired by capital grants	<u>31,325</u>	<u>0</u>	<u>31,325</u>	<u>31,325</u>
INCREASE (DECREASE) IN RETAINED EARNINGS	\$ (32,094)	\$ <u>(325,292)</u>	\$ <u>293,198</u>	\$ (13,721)
Retained earnings - beginning	<u>713,819</u>			<u>727,540</u>
RETAINED EARNINGS - ENDING	\$ <u>681,725</u>			\$ <u>713,819</u>

CITY OF KINGSFORD
WATER UTILITY FUND
STATEMENT OF CASH FLOWS
Years ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 421,672	\$ 404,944
Payments to suppliers	(123,804)	(109,050)
Payments to or on behalf of employees	(171,576)	(166,488)
Internal activity-payments from other funds	<u>6,947</u>	<u>(72,063)</u>
TOTAL CASH FLOWS FROM OPERATING ACTIVITIES	\$ 133,239	\$ 57,343
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal and interest paid on capital debt	\$ (28,333)	\$ (28,558)
Purchases of capital assets	0	0
Funding of restricted accounts	<u>(2,141)</u>	<u>(19,074)</u>
TOTAL CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	\$ (30,474)	\$ (47,632)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest earned	\$ <u>25,796</u>	\$ <u>29,511</u>
NET INCREASE (DECREASE) IN CASH	\$ 128,561	\$ 39,222
Cash and equivalents - beginning	<u>995,550</u>	<u>956,328</u>
CASH AND EQUIVALENTS - ENDING	\$ <u><u>1,124,111</u></u>	\$ <u><u>995,550</u></u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income (loss)	\$ (65,939)	\$ (51,056)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities		
Depreciation	177,447	178,621
Change in Assets and Liabilities		
Receivables - net	(507)	(1,236)
Accounts payable	6,364	(754)
Accrued payroll expense	8,927	3,831
Due to other funds	<u>6,947</u>	<u>(72,063)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ <u><u>133,239</u></u>	\$ <u><u>57,343</u></u>

CITY OF KINGSFORD
BUDGETARY COMPARISON SCHEDULE
LAND SALES, PURCHASE AND DEVELOPMENT FUND
Year ended June 30, 2005

	<u>ORIGINAL BUDGET</u>	<u>AMENDED BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH AMENDED BUDGET</u>
Beginning Fund Balance	\$ 6,153	\$ 6,153	\$ 6,153	\$ 0
Resources (Inflows)				
Land sales	0	0	7,099	7,099
Interest earned	120	120	238	118
Transfers from other funds	<u>218,880</u>	<u>218,880</u>	<u>0</u>	<u>(218,880)</u>
AMOUNTS AVAILABLE FOR APPROPRIATION	\$ 225,153	\$ 225,153	\$ 13,490	\$ (211,663)
Charges to Appropriations (Outflows)				
Professional fees	\$ 50,000	\$ 50,000	\$ 13,046	\$ 36,954
Land acquisition	<u>170,000</u>	<u>170,000</u>	<u>17</u>	<u>169,983</u>
TOTAL CHARGES TO APPROPRIATIONS	\$ <u>220,000</u>	\$ <u>220,000</u>	\$ <u>13,063</u>	\$ <u>206,937</u>
	\$ <u>5,153</u>	\$ <u>5,153</u>	\$ <u>427</u>	\$ <u>(4,726)</u>

CITY OF KINGSFORD
BUDGETARY COMPARISON SCHEDULE
1998 PUBLIC WORKS DEBT SERVICE FUND
Year ended June 30, 2005

	<u>ORIGINAL BUDGET</u>	<u>AMENDED BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH AMENDED BUDGET</u>
Beginning Fund Balance	\$ 40,971	\$ 40,971	\$ 40,971	\$ 0
Resources (Inflows)				
Property taxes	145,000	145,000	145,042	42
Interest earned	<u>0</u>	<u>0</u>	<u>1,509</u>	<u>1,509</u>
AMOUNTS AVAILABLE FOR APPROPRIATION	\$ 185,971	\$ 185,971	\$ 187,522	\$ 1,551
Charges to Appropriations (Outflows)				
Debt service	\$ <u>146,762</u>	\$ <u>146,762</u>	\$ <u>146,760</u>	\$ <u>2</u>
TOTAL CHARGES TO APPROPRIATIONS	\$ <u>146,762</u>	\$ <u>146,762</u>	\$ <u>146,760</u>	\$ <u>2</u>
BUDGETARY FUND BALANCE--ENDING	\$ <u><u>39,209</u></u>	\$ <u><u>39,209</u></u>	\$ <u><u>40,762</u></u>	\$ <u><u>1,553</u></u>

SCOTT R. KENNEY

Certified Public Accountant

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INDEPENDENT AUDITOR'S REPORT ON
COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
IN ACCORDANCE WITH GOVERNMENTAL AUDITING STANDARDS

The Honorable Mayor and Council
City of Kingsford
Kingsford, MI 49802

I have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Kingsford, Michigan (City) as of and for the year ended June 30, 2005, which collectively comprise the City of Kingsford, Michigan's basic financial statements and have issued my report thereon dated August 29, 2005. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Governmental Auditing Standards, issued by the Comptroller General of the United States.

COMPLIANCE

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

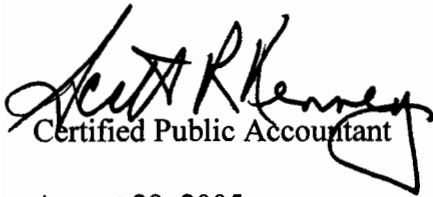
INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing my audit, I considered the City's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinions on the financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts

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that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses. However, I noted other matters involving the internal control over financial reporting that I have reported to the management of the City in a separate letter dated August 29, 2005.

This report is intended solely for the information and use of the audit committee, management, City Council and federal awarding agencies and is not intended to be and should not be used by anyone other than those specified parties.


Certified Public Accountant

August 29, 2005

SCOTT R. KENNEY

Certified Public Accountant

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(906) 875-4393 Fax: (906) 875-3879

Honorable Mayor and City Council
City of Kingsford
305 South Carpenter Avenue
Kingsford, MI 49802

In conjunction with the audit of the financial statements of the City of Kingsford as of and for the year ended June 30, 2005, I have reviewed the City's accounting policies and procedures and systems of internal control. My audit was conducted primarily to enable me to formulate an opinion on the City's financial statements and accordingly, would not disclose all weaknesses in the system which may exist. My review disclosed certain areas in which I believe more effective internal control or increased efficiency may be achieved. This letter is intended to summarize my findings and present my overall conclusions and recommendations. It has been prepared solely for the information of the City of Kingsford's council and management and should not be presented or quoted to anyone outside of the City because of the possibility of misunderstanding by other persons who may not be aware of the objectives and limitations of internal controls and my study and evaluation thereof. Each of the items included in last year's letter of comments and recommendations were satisfactorily resolved except the first item noted below:

1. **OBSERVATION** - The City Council action of several years ago regarding funding retiree health insurance is not adequate to meet the current obligation. The shortage in funding will continue to create a deficit in the fund which is prohibited under Michigan statute.

RECOMMENDATION - I recommend that the council review its previous action and either increase the funding level, decrease the obligation or some combination thereof.

At a minimum, I recommend that the Council rescind the previous action regarding the funding of the retiree health insurance. Such a rescission, would effectively remove the funding limitation that now exists. In addition, approval via the budget process or separate Council action should be taken to adequately fund the retiree health insurance liability.

2. **OBSERVATION** - The City's ordinances that pertain to its utility services state that accounts that have not been paid on a timely basis are to be penalized. The City has not been penalizing its employees, council members, commercial accounts, low income residents or senior residents.

RECOMMENDATION - I recommend that the City penalize all appropriate accounts in accordance with the ordinances.

After discussing this with management, the practice was changed and all accounts are now being penalized that are not paid timely.

I would like to thank the City Council for allowing me to conduct the audit of the financial statements and I would especially like to thank the City's staff for their assistance during the audit.

If the City would like my assistance in implementing any of the above recommendations, I am willing to help in any way that I can.


Certified Public Accountant

August 29, 2005